

House Study Bill 69 - Introduced

HOUSE FILE _____

BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON KAUFMANN)

A BILL FOR

1 An Act relating to an entity-level taxation election for
2 pass-through entities and allowing a partner or shareholder
3 to claim a credit against the individual income tax.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.11, Code 2023, is amended to read as
2 follows:

3 **422.11 Franchise tax credit.**

4 1. The taxes imposed under [this subchapter](#), less the credits
5 allowed under [section 422.12](#), shall be reduced by a franchise
6 tax credit. A taxpayer who is a shareholder in a financial
7 institution, as defined in section 581 of the Internal Revenue
8 Code, which has in effect for the tax year an election under
9 subchapter S of the Internal Revenue Code, or is a member of a
10 financial institution organized as a limited liability company
11 under [chapter 524](#) that is taxed as a partnership for federal
12 income tax purposes, shall compute the amount of the tax credit
13 by recomputing the amount of tax under [this subchapter](#) by
14 reducing the taxable income of the taxpayer by the taxpayer's
15 pro rata share of the items of income and expense of the
16 financial institution and subtracting the credits allowed
17 under [section 422.12](#). This recomputed tax shall be subtracted
18 from the amount of tax computed under [this subchapter](#) after
19 the deduction for credits allowed under [section 422.12](#). The
20 resulting amount, which shall not exceed the taxpayer's
21 pro rata share of the franchise tax paid by the financial
22 institution, is the amount of the franchise tax credit allowed.

23 2. For a taxpayer making an election to apply the provisions
24 of [section 422.16C](#) that is also a financial institution subject
25 to the franchise tax under subchapter V, the tax imposed under
26 [section 422.16C](#) shall be reduced by a franchise tax credit
27 equal to the amount of franchise tax paid by the taxpayer for
28 the same year.

29 **Sec. 2. NEW SECTION. 422.16C Pass-through entity —**
30 **election — entity-level tax — credit.**

31 1. As used in this section, unless the context otherwise
32 requires:

33 *a.* "Partnership" means the same as defined in section
34 422.25A, except a "partnership" does not include a pass-through
35 entity that is a publicly traded partnership as defined in

1 section 7704 of the Internal Revenue Code.

2 **b.** “*Taxpayer*” means a partnership or an S corporation.

3 2. **a.** Except as provided in paragraph “*b*”, for tax years
4 ending on or after December 31, 2022, and beginning prior to
5 January 1, 2026, notwithstanding any other provision of law to
6 the contrary, a taxpayer may elect to apply the provisions of
7 this section.

8 **b.** This section only applies to tax years for which the
9 limitation on individual deductions applies under section
10 164(b)(6) of the Internal Revenue Code.

11 3. **a.** A separate election shall be made for each tax year
12 on a form and at a time prescribed by the department. An
13 election shall be irrevocable once made and shall be binding on
14 the taxpayer and all partners or shareholders of the taxpayer.

15 **b.** If an election is made, a taxpayer shall not be required
16 to file a composite return for the same tax year pursuant to
17 section 422.16B.

18 4. **a.** A taxpayer electing to apply the provisions of this
19 section shall be subject to tax in an amount equal to the
20 applicable rate under section 422.5A for tax years beginning
21 before January 1, 2026, and the rate under section 422.5,
22 subsection 1, paragraph “*a*”, for tax years beginning on or after
23 January 1, 2026, imposed against the taxable income of the
24 taxpayer for the taxable year properly determined under this
25 chapter and allocated and apportioned to the state under the
26 rules adopted by the department.

27 **b.** The tax under this section shall be reduced by the credit
28 provided in subsection 5, paragraph “*b*”, and the franchise tax
29 credit in subsection 422.11, subsection 2, and the composite
30 credit in section 422.16B, subsection 4. Any other tax
31 credits shall not be claimed by the taxpayer against the tax
32 imposed under this section. A net operating loss or other loss
33 carryback or carryforward shall not be claimed by the taxpayer.

34 5. **a.** For a taxable year in which a taxpayer made an
35 election under this section, for the partners or shareholders

1 of the taxpayer, the taxes imposed under this subchapter,
2 less the credits allowed under section 422.12, shall be
3 reduced by a credit equal to the ratio of the partner's or
4 shareholder's share of taxable income over the total taxable
5 income multiplied by the state tax liability actually paid by
6 the taxpayer.

7 **b.** If the taxpayer is itself a partner or shareholder of
8 another taxpayer making an election to apply the provisions
9 of this section, the credit under this subsection shall be
10 allowed.

11 **c.** If the amount of credit allowed under this subsection
12 exceeds the tax liability of the partner or shareholder for the
13 tax year, the excess may be credited to the tax liability of
14 the partner or shareholder for the following five tax years or
15 until depleted, whichever occurs first.

16 **6.** A nonresident individual who is a partner or shareholder
17 of a taxpayer for a tax year in which an election is made under
18 this section shall not be required to file a tax return for
19 such tax year if the only source of income of the individual is
20 from a taxpayer making the election under this section and the
21 credit allowed to the partner or shareholder equals or exceeds
22 the tax liability of the partner or shareholder for the tax
23 imposed in the tax year the election is made.

24 **7.** A taxpayer making an election under this section is
25 liable for the entity-level tax imposed pursuant to this
26 section, including applicable penalties and interest. If
27 the electing taxpayer fails to timely pay the full amount of
28 the tax, the partners or shareholders shall be jointly and
29 severally liable, along with the electing taxpayer, to pay the
30 unpaid tax.

31 **8.** The department shall adopt rules pursuant to chapter 17A
32 to administer this section.

33 **Sec. 3.** Section 422.85, Code 2023, is amended to read as
34 follows:

35 **422.85 Imposition of estimated tax.**

1 A taxpayer subject to the tax imposed by sections 422.16C,
 2 422.33, and 422.60 shall make payments of estimated tax for the
 3 taxable year if the amount of tax payable, less credits, can
 4 reasonably be expected to be more than one thousand dollars for
 5 the taxable year. For purposes of this subchapter, "*estimated*
 6 *tax*" means the amount which the taxpayer estimates to be the tax
 7 due and payable under subchapter II, III, or V of this chapter
 8 for the taxable year.

9 Sec. 4. ESTIMATED TAX PAYMENTS FOR TAX YEARS BEGINNING PRIOR
 10 TO EFFECTIVE DATE OF ACT. Notwithstanding sections 422.16 and
 11 422.85, a taxpayer electing to apply the provisions of section
 12 422.16C shall not be required to make estimated tax payments
 13 for a tax year beginning prior to the effective date of this
 14 Act.

15 EXPLANATION

16 The inclusion of this explanation does not constitute agreement with
 17 the explanation's substance by the members of the general assembly.

18 This bill relates to an entity-level taxation election for
 19 pass-through entities and allows a partner or shareholder to
 20 claim a credit against the individual income tax.

21 For tax years ending on or after December 31, 2022, and
 22 beginning prior to January 1, 2026, a taxpayer (a partnership,
 23 other than a publicly traded partnership, or a subchapter S
 24 corporation), may elect to be subject to tax at the partnership
 25 or S corporation level in an amount equal to the applicable tax
 26 rates under Code section 422.5A imposed against the taxable
 27 income of the taxpayer for the taxable year. Currently, the
 28 taxable income of a partnership or S corporation passes through
 29 to the partners or shareholders of the entity and is subject to
 30 the individual income tax at the partner or shareholder level.

31 The bill only applies to tax years as long as the limitation
 32 on individual deductions applies under section 164(b)(6) of the
 33 Internal Revenue Code.

34 If an election is made, the partners or shareholders are
 35 allowed a credit against the individual income tax equal to

1 the ratio of the partner's or shareholder's share of taxable
2 income over the total taxable income multiplied by the state
3 tax liability of the electing taxpayer.

4 The bill limits the number of credits the taxpayer is
5 eligible for if the taxpayer elects to be subject to tax at the
6 partnership or S corporation level. The bill also prohibits
7 the taxpayer from claiming a net operating loss or electing to
8 carryback or carryforward a loss.

9 The bill does allow the taxpayer, if the taxpayer is a
10 financial institution, to claim the franchise tax credit in
11 Code section 422.11 equal to the amount of franchise tax paid
12 by the taxpayer.

13 If the amount of credit allowed under the bill exceeds the
14 tax liability of the partner or shareholder for the tax year,
15 the excess may be credited to the tax liability of the partner
16 or shareholder for the following five tax years or until
17 depleted, whichever occurs first.

18 The bill specifies that the partners or shareholders shall
19 be jointly and severally liable to pay any unpaid tax.

20 For tax years where an election is made, the withholding
21 requirements of Code section 422.16 do not apply. The bill
22 does require the taxpayer to make estimated tax payments
23 pursuant to Code section 422.85, if applicable. However, a
24 taxpayer electing to be taxed at the partnership level or at
25 the S corporation level is not required to make estimated tax
26 payments for a tax year beginning prior to the effective date
27 of the bill.